

Natural Resources Subcommittee Hearing



MEXICO'S ENERGY REFORM

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History is made...

December 2013: CONSTITUTIONAL AMENDMENT

PARADIGM SHIFT:

Free market model with regulation where needed

21 transitory articles to guide further legislative and executive action



A new legal framework

After 3 months of Congressional debate:

9 new statutes

12 amended statutes

Came into force on August 12

10 key features everyone should bear in mind...





1. E&P

Transparent bidding processes conducted by the National Hydrocarbons Commission (CNH) in order to grant **CONTRACTS**:

License / Production sharing / Profit sharing / Services

- Department of Energy (SENER): technical conditions
- Department of Finance (SHCP): financial conditions
- Mexican Petroleum Fund (FMP): revenues' administration



1. E&P



Also, Pemex can receive **direct assignments**, with the possibility of **joint ventures** and **migrations** (**Round Zero** already performed:

Pemex received 83% 2P and 21% 3P reservas)

Occupation of land surface via direct **negotiations with landowners** (entitled to receive 0.5% to 3% of profits)

Minimum **national content**: 25% in 2015 up to 35% in 2025



2. Refining and processing



PARADOX:

Deer Park refinery... Pemex – Shell joint venture!

Oil refining and gas processing opened to private investment through

permits granted by the SENER





3. Hydrocarbons infrastructure

Gas transportation, storage and distribution
were opened to private investment in 1995
(now better rules for open access and system integration)

Services now opened for

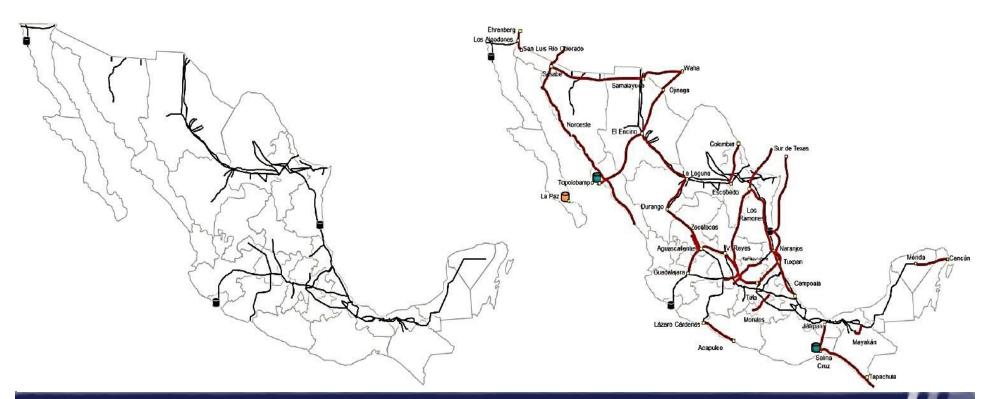
oil, petrochemicals and refined products,
via permits granted by the Energy Regulatory Commission (CRE),
under open access conditions.



3. Hydrocarbons infrastructure

Gas transportation 2014

Gas transportation 2018







4. Fuels

Gasoline & diesel

2016: CRE starts issuing permits to independent service stations (no Pemex franchise)

2017: SENER starts issuing **imports** permits to private companies

2018: **Prices** determined by the market

Propane

2016: Regulation transferred to CRE; SENER starts issuing **imports** permits to private companies

2017: Prices determined by the market (with focused subsidies)



5. Power market

Power **generation** and **supply** completely

opened to private participation via **CRE permits** (>0.5 MW)



Wholesale market: qualified off-takers (>1 MW load after second year)

To be operated by **CENACE** (ISO)



6. Power utility



Power transmission and distribution will remain public services entrusted to CFE, but private parties may participate via contracts and associations.

Fees will be determined by CRE based on **cost-of-service** criteria, not by SHCP under economic or social policy considerations.





7. Regulatory agencies

CNH and **CRE** are stronger:

- Now independent federal agencies, no longer part of SENER (just "coordinated")
- Commissioners nominated by 2/3 Senate vote (now 7)
- Budgetary provisions
- Self-organization and consultative councils
- Transparency and accountability rules









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8. Safety and the environment

ANSIPAH:

New agency specialized in the hydrocarbons sector, part of the Department of the Environment (SEMARNAT):

- Industrial and operational safety
- Facilities' dismantling and abandonment
- Waste and emissions control
- Special Congressional concerns about hydraulic fracturing and deepwater exploration and production.





9. Systems' operators

New public organisms:

CENAGAS: Inherits 90% of the country's existing gas transportation pipelines from Pemex

Integrated system operator

CENACE: Planning and operation of the electricity system and market

Their mission:

bringing about effective open access to their networks





10. State enterprises

Pemex and **CFE** as "productive state enterprises":

- No longer entities directly ruled by the Executive branch.
- Flexibility: special regime on affiliate companies, salaries, acquisitions, assets, budget and debt
- Corporate governance: international best practices
- CFE will be vertically and horizontally unbundled



Next steps

E&P **Round One** preliminary blocks already announced; RFPs in **February**, **2015**.

Rule making:

- Presidential rulings (accelerated process: October, 2014)
- Regulations (+/- next 12 months)
- "Green Act" (December, 2014) RPS do not seem enough!





Thank you

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